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When land markets 'do not work' and status-quo agrarian structures persist: A case study from rural Albania

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Introduction

- Albania went through **dramatic changes in the last two decades and half.**
 - Under the communist regime land was state or collectively owned and was used by large cooperative and state farms. The land reform implemented in 1991 aimed at transferring property rights from state and collective ownership to private individuals.
 - Privatization encouraged rural people to extent their production and to use efficiently their resources, it led to high land fragmentation, which is ultimately translated into subsistence type of farming. This created uncertainty of property rights potentially constraining the functioning of land markers (**Swinnen 1997**).

Introduction

- The main objective of this paper is to **analyse land market development in Albania** by drawing on a set of empirical evidence in order to provide a picture on how land markets have developed over two decades since the completion of the land privatization in early 1990s.
- We investigate the impact of ownership insecurity and subsistence farming on the functioning of sale and rental land markets.
- We use data from a survey conducted in four Albanian villages during May 2013.

Introduction

- Albania represents particularly interesting case for studying land markets. Agriculture still represents an important share in the overall economy, contributing 21% to overall economy and accounting for 58% of employment in the country ([World Bank 2013](#)).
- The transition from the planned economy to market economy in early 1990s provides a natural experiment in identifying structural changes that took place in land markets.
- Further, land was distributed to rural families who used to work in the collective and state farms which generates stimulus for land markets but on the other hand it generated uncertainties and insecurity of property rights due to competing land ownership claims from former-owners.
- This is the first study that provides micro-analysis of agricultural land markets in Albania.

Land reform in Albania

Land reforms before collectivisation

■ Albania was under the Ottoman Empire for several centuries, and after obtaining its independence in 1912 the land ownership structure was largely inherited from them. Land had a very unequal distribution and a big part of the agricultural land was controlled by five big families each owning about 60,000 hectares of farmland and forests (Swinnen 1997; Cungu and Swinnen 1999; Wheeler and Waite 2003).

■ First effort to change the situation inherited from the Ottoman Empire was in 1924 and the second one was in 1920s introduced by the King Zogu I who aimed to balance the land ownership among the rural population. Nevertheless, land ownership remained very concentrated, with 3 percent of the population owning 27% of the land. The inequality was stronger in the most fertile and productive areas in the country (Wheeler and Waite, 2003; Swinnen 1997; Cungu and Swinnen 1999; Hartvigsen 2013).

Land reform in Albania

Collectivization

■ Agrarian Reform began in 1945 - 1946 and restricted the right of ownership for up to 5 hectares of land for the big landowners. In addition public notaries were not allowed to perform any action which implied selling/buying of agricultural land. Nevertheless, at the end of the agrarian reform no landowner held any legal titles to land. The right of land ownership gradually faded away while in 1967 there was virtually no land privately owned. The constitution of 1976 established the state and the collective ownership over most of agricultural land (ZRPP 2013).

Land reform in Albania

Collectivization

■ At the end of collectivisation, agricultural land was organized in agricultural cooperatives and state farms. The size of cooperative and state farms represented more than 1000 hectares. The cooperative farms controlled agricultural land previously owned by family owners. Meanwhile, state farms were an amalgam of the land owned by big landowners (Lemel 1998). The communist constitution of Albania legally recognised only these two forms of land ownership and use. By 1970, more than 95% of the agricultural land was cultivated by cooperative farms or state farms. There was a small exception to this general rule; for small amount of land private ownership was allowed, but with a maximum of 1100 square meters per household (Pryor, 1992; Cungu and Swinnen 1999; Wheeler and Waite 2003).

Land reform in Albania

Land reform of 1991

■ After the fall of the communist regime in 1990, the land reform process in Albania was launched in 1991 with the adoption of the ***law on land*** (largely known as the Law 7501).

■ The aim of the 1991 land reform was to amend social injustice created by the previous regime and to address the food shortage problem. At the same time, the aim was to avoid re-establishing the pre-1945 large estates (Swinnen 1997; Hartvigsen 2013).

Land reform in Albania

Land reform of 1991

■ Azeta Cungu (1999) argues that three reform options for pursuing land privatization were politically feasible in 1991.

- The first option was the minimal reform with limited privatization and more independence granted to state enterprises.
- The second feasible option was to pursue social equity which would imply full distribution of ownership to cooperative workers and rural households.
- The third option was to pursue historical justice that would restore ownership rights to the expropriated former landowners who lost land during the collectivisation period.

Land reform in Albania

Land reform of 1991

■ **Cungu and Swinnen (1999)** identify farm workers and rural families, former landowners, and rural nomenklatura as the main groups which could influence the reform choice. The first two groups did not agree with the minimal reform option but they were for the full distribution of land. Former owners represented only 3% of the population, while farm workers and rural families made more than 65% of the total Albanian population. This stratum (farm workers and rural families) were the one with the lowest income and the one able to increase agricultural output in a relatively short term period. These reasons prevailed and were the basis for the reform choice, for the land distribution per capita basis to farm workers (**Cungu and Swinnen 1999**).

Land reform in Albania

Outcome of the land reform

■ Before the implementation of the 1991 land reform, land was controlled by 420 collective and state farms with more than 1000 hectares per farms. The reform distributed the land to 480,000 families in approximately 1.8 million small parcels averaging 0.25 hectares per parcel. This process resulted in emergence of small average farm size in Albania (on average 1.25 ha) as well as it led to land use (an average of 5 plots per farm) and land ownership (among 480,000 families) fragmentation ([Wheeler and Waite 2003](#); [Hartvigsen 2013](#); [Savastano, Carletto and Deininger 2012](#)).

■ The choice of the land privatization also created insecurity of property rights to land. Land distribution to farm workers excluded majority of former owners' claims for restitution of land. The legal and institutional framework failed in securing property rights to distributed land and in several instances illegal occupation took place by former owners who claimed their ownership rights over land that they were expropriated during the communist period ([Wheeler and Waite 2003](#)).

Land indicators in Albania (2001 and 2011)

Fragmentation indicators	Unit	Albania (2001)	Albania (2011)
Average farm size	Ha	1.25	1.26
Average plot size	Ha	0.25	0.27
Average number of parcels	No.	3-4	5
Private farms with <1 hectare	%	42	41
Total number of farms	Million	0.48	0.35
Total number of parcels	Million	1.8	n/a

Descriptive background of the study villages

Descriptive background of the study villages

■ Surveys in four Albanian villages using face-to-face interviews with village representatives and head of households. The survey was conducted during May 2013. The villages selected for the surveys include **Pulahe** from Korca District, **Çidhen**, from Dibra District, **Dushk Peqin** from Lushnja District and **Vishaj** from Tirana district. Villages were selected so that they represent geographic diversity of Albania and different methods of land reform implementation (Demaj 2013).

Main characteristics of surveyed villages

Fragmentation indicators	Unit	Vishaj	Pulahe	Çidhen	Dushk-Peqin
Total number of inhabitants	No.	507	669	523	1,565
Average age	Years	42	44	40	42
Number of household members	No.	4.3	3.9	3.5	3.5
Total agricultural area	Ha	186	258	97	591
Total number of plots	No.	462	668	805	1,658
Average plot size	Ha	0.4	0.4	0.1	0.4
Average farm size	Ha	1.2	1.8	0.5	1.2

Descriptive background of the study villages

Socio-economic situation of study villages

- Family structure in the study villages is composed by a married couple and their children.
- Vishaj has an average family size higher (4.3 members) than the other three villages (between 3.5 and 3.9).
- Migration represents important aspect of village life in Albania. In the study region, the out-migration rate is between 1.5% and 15.5% of the total village population. The highest rate is reported for Pulahe and the lowest for Dushk-Peqin. There is also observed relatively significant inward migration, between 10% and 12% of total village population.

Descriptive background of the study villages

Socio-economic situation of study villages

■ The average age of the village residents in the study regions is between 40 and 44 years. Gender differences are not very accentuated through village inhabitants. However, females are in all studied locations lower as share in the total population.

■ Main employment in the study villages is in agriculture with the highest rate being in Dushk-Peqin (Table 3). An important share of population (between 0.3% and 62%) receives “economic aid”. The aid includes monetary transfers to special status persons or those families in need (with low income level).

Descriptive background of the study villages

Socio-economic situation of study villages

Structure of employment in the surveyed villages (in %)

Description	Pulahe	Çidhen	Vishaj	Dushk-Peqin
Farmer (self-employed)	60.5	15.7	50.3	72.9
Private non-agr. business	2.4	1.5	4.6	0.6
Student	3.8	2.3	0.8	3.8
Private or state employee	0.9	4.4	18.4	6.3
Housewife/housekeeper	0.0	0.4	0.2	0.4
Pensioner	15.5	11.5	14.1	14.1
Economic aid	1.4	62.0	1.0	0.3
Migrants	15.5	2.3	10.6	1.5

Descriptive background of the study villages

Land reform in the study villages

1) Pulahe (Korca District)

Pulahe's agricultural land was a part of an agricultural cooperative prior to land privatization. The implementation of the land reform began in 1991 and lasted until 1992. It ended peacefully without any contestation or conflict between the new and the former landowners. The distribution was based entirely on the law 7501 and the amount of land distributed was 0.47 ha per capita. Land was granted based on the first pre-collectivization ownership but not more than the norm allowed (i.e. no more than 0.47 ha per capita). It means that the former owners received only a part of land owned before 1945. Families received land of different types (e.g. arable land, orchards) often scattered in different part of the village.

2) Çidhen (Dibra District)

Land reform implementation in Çidhen was not based on the Law 7501. Land was restituted to former owners. There was a common agreement between land commissioners. The former landowners' claims were identified by gathering the third generation of the family members (the elder men). The elder men restituted land taking in consideration old boundaries, firstly based on the *fis* (*kinship*) and then per family. In general, the restitution process was peaceful and no conflicts were reported. The elders' decisions were accepted by all community.

Descriptive background of the study villages

3) Dushk Peqin (Lushnja District)

Land reform was implemented based on the Law 7501. It started in 1992 and it was completed in 1993. The amount of land distributed was 0.44 hectares per capita: 0.07 hectares was of category 2 and 3; 0.17 hectares was of category 1; 0.1 hectares was of category 4,5; and 0.1 hectares were orchards. The whole land distribution process was peaceful, without any major conflict. The fact that one representative of the *fis* was included in the land division commission perhaps contributed to the peaceful implementation of the reform. Important is to note that land was not owned by the current residents of the village before 1945.

4) Vishaj (Tirana district)

The implementation of land reform in Vishaj was originally in compliance of the Law 7501. The amount of land distributed was 0.25-0.28 hectares per capita. This is the way the distribution of land was initiated. However, after land distribution was completed, the former owners claimed the land and the whole process ended in conflict. Some former owners occupied land already distributed and to which ownership was granted (under the Law No. 7501) to 'non-autochthonous' residents (new-comers).

Survey results: Land market in the study villages

■ The highest number of plots per hectare is in Çidhen (8.3) where the land is scarcer, whereas the lowest is in Vishaj (2.48). This could be also explained by the fact that land in Çidhen was restituted to former owners in the old boundaries. In other villages an attempt was made to consolidate plots, such as it happened in Dushk Peqin, and the distribution land was not constrained to old boundaries.

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Survey results: Land market in the study villages

- It is expected that land transactions would increase overtime, given the fact that the land distribution was made on per capita bases and was not necessarily allocated to the most efficient users.
- In well-functioning markets, land sale and/or rental markets would facilitate transfer of land from less to more efficient users. However, in Albania there are important transaction costs in the land market related in particular to ownership insecurity, regulation on land sales, and land fragmentation. This likely constrains land transactions.
- Subsistence farming also likely reduces market transaction as these type of farms tend not to respond to market signals. Small subsistence farmers tend to use land for production of food for own consumption rather than sell or rent it out. Their shadow price of land is high due to the food security reasons than market can offer because of its implication on the safety net of households (Binswanger et al. 1995; De Janvry et al. 2001).

Survey results: Land market in the study villages

Land Fragmentation and Farm Size

- **Dijk (2002)** divides land fragmentation in two types:
 - (i) the ownership fragmentation, and
 - (ii) the use fragmentation.
- Both types of fragmentations are significant in study villages.
- The total area of all four study villages (1,133 ha) is split in 3,512 plots implying that on average a hectare of land is split in 3.1 plots.
- The highest number of plots per hectare is in Çidhen (8.3) where the land is scarcer, whereas the lowest is in Vishaj (2.48). This could be also explained by the fact that land in Çidhen was restituted to former owners in the old boundaries. In other villages an attempt was made to consolidate plots, such as it happened in Dushk Peqin, and the distribution land was not constrained to old boundaries.

Survey results: Land market in the study villages

Land Fragmentation and Farm Size

■ There are three main reasons for farmland fragmentation in the surveyed villages:

- (i) land scarcity relative to density of rural population,
- (ii) land distribution based on a per capita basis, and
- (iii) split of distributed land by its type (e.g. arable land, orchards) and location.

These factors lead to both ownership and use fragmentation of land.

■ Land use fragmentation may influence farmers' performance and productivity. Fragmentation might have also positive impact on farm performance.

Survey results: Land market in the study villages

Land Fragmentation and Farm Size

Farm and plot characteristics in the surveyed villages

Location	Land per capita (ha)	Average farm size (ha)	Max. farm size (ha)	Min. farm size (ha)	No. of plots (No.)	Average no. of plot per farm (no.)	No. of plots per hectare
Pulahe	0.61	1.8	7.8	0.40	657	4.5	2.54
Çidhen	0.19	0.5	1.9	0.03	802	3.7	8.28
Vishaj	0.37	1.2	5.1	0.05	463	3.0	2.48
Dushk-Peqin	0.38	1.2	5.4	0.14	1590	3.3	2.69
All villages	0.45		7.8	0.40	3,512		3.10

Number of land owners and hectares per owners

Location	Number of owners (No.)	Area per owner (ha)	Min area per owner (ha)	Max area per owner (ha)	Number of plots per owner (No.)	Min number of plots per owner (No.)	Max number of plots per owner (No.)
Pulahe	145	1.8	0.40	7.80	4.5	1	11
Çidhen	214	0.5	0.02	1.85	3.7	1	16
Vishaj	160	1.2	0.05	5.10	2.8	1	14
Dushk-Peqin	489	1.2	0.06	14.58	3.3	1	25
All villages	1,008	1.1	0.02	14.58	3.5	1	25

Survey results: Land market in the study villages

Land ownership and land sale market

- The survey results indicate that since the land reform completion in 1991-1993, the land ownership structure remained virtually unchanged and land sale transactions for agricultural purposes were minimal or non-existent.
- More than 88% of land has the same owner who received the land through the land reform process in 1991-1993.
- The size of land acquired through purchase is very small, representing less than 3% of the total agricultural area in more than two decades (since the end of the privatization process).

Survey results: Land market in the study villages

Land ownership and land sale market

- Land sales/purchases were more often conducted during 1992 – 1996 and 2002 – 2005. Main purposes of land purchase were construction of houses and small to medium businesses (Dushk-Peqin and Vishaj).
- A bigger share of land acquisition through purchase is observed in Vishaj. However, this is the effect of the above mentioned conflict that emerged between former-owners and non-autochthonous residents.
- Moreover, due to tradition and official regulation there are a lot of barriers to land sales markets.

Survey results: Land market in the study villages

Land ownership and land sale market

How did the owner gain the land ownership (% of ha)

Location	Law 7501	Compensation	Bought	Inherited	Occupied	Other
Vishaj	88.9%	0.3%	2.8%	2.4%	4.8%	0.8%
Pulahe	98.9%	0.0%	1.1%	0.0%	0.0%	0.0%
Çidhen	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%
Dushk Peqin	99.3%	0.0%	0.7%	0.0%	0.0%	0.0%
All villages	89.0%	0.0%	1.1%	9.0%	0.8%	0.1%

Survey results: Land market in the study villages

Land rental market

■ Land is used most of the times by owners; land renting is not widespread in the study villages. Land renting is the highest in Pulahe, representing 31% of the total village area. The lowest level of land renting is observed in Dushk-Peqin where only 6% of the total village land is rented, whereas the rest (94%) is used by the owner

■ A strong determinant of land renting is family ties. In all surveyed villages the relationship between landowners and tenants is based on family acquaintances. Landowners prefer to rent out land only to individuals who they trust (i.e. relatives) to avoid losing land and/or to avoid potential conflict with former owners.

■ Absentee landowners are the main suppliers of land on rental market.

■ Most of the rental payments are in cash and as a fixed monetary payment.

■ Most land contracts are oral and have a short-term nature

Survey results: Land market in the study villages

Land rental market

Land renting in survey villages

	Used by owner			Rented to another household		
	No. plots	Area (ha)	% (ha)	No. plots	Area (ha)	% (ha)
Vishaj	400	160.9	86.3	62	25.5	13.7
Pulahe	461	177.2	68.7	193	80.9	31.3
Çidhen	600	72.4	74.6	205	24.7	25.4
Dushk Peqin	1,492	551.9	93.6	103	37.9	6.4
All villages	2,953	962.4	85.1	563	169.0	14.9

Survey results: Land market in the study villages

Land rental market

Characteristics of land rented out in surveyed villages

Indicator	Unit	Pulahe		Vishaj		Dushk-P.		Çidhen	
		Relative	Non-relative	Relative	Non-relative	Relative	Non-relative	Relative	Non-relative
Tenant households	%	75.0	25.0	68.2	31.8	70.6	29.4	96.7	3.3
<i>Rental price</i>									
Min rental price	lek/year/ha	6,000	7,000	20,000	10,000	10,000	22,000	8,000	22,000
Max rental price	lek/year/ha	15,000	15,000	50,000	50,000	25,000	25,000	25,000	23,000
Average rental price	lek/year/ha	12,230	13,610	36,320	29,380	19,708	24,400	17,290	22,500
<i>Rental payment arrangement (% of rented-out plots)</i>									
Fixed payment	%	73.1	88.1	100.0	100.0	51.9	100.0	59.9	46.2
Variable payment	%	5.2	3.4	0.0	0.0	48.1	0.0	40.1	53.8
Fix+var. payment	%	19.4	8.5	0.0	0.0	0.0	0.0	0.0	0.0
No payment	%	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Rental contract (% of rented-out plots)</i>									
Written/ registered	%	0.0	8.5	0.0	0.0	5.1	8.3	0.0	0.0
Written	%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oral	%	90.3	88.1	100.0	100.0	75.9	91.7	100.0	100.0
No contract	%	9.7	3.4	0.0	0.0	19.0	0.0	0.0	0.0

Survey results: Land market in the study villages

Land rental market

Location of household (%)

		Within village	Within district	Outside district	Out of Albania
Vishaj	Renting-out	25	65	0	10
	Renting-in	94	6	0	0
Pulahe	Renting-out	12	13	25	50
	Renting-in	96	4	0	0
Çidhen	Renting-out	0	0	98	2
	Renting-in	100	0	0	0
Dushk-Peqin	Renting-out	0	6	26	68
	Renting-in	94	6	0	0

Survey results: Land market in the study villages

Land rental market

Duration of rental arrangements (share in %)

Location	1-5 years	6-10 years	11-15 years	>15 years
Vishaj	59.5	33.8	6.5	0.2
Pulahe	13.8	74.9	11.3	0.0
Çidhen	1.7	34.8	43.3	20.2
Dushk Peqin	12.6	51.3	36.1	0.0
All villages	13.5	47.0	26.8	12.7

Determinants of land renting

Determinants of land renting

■ In this sub-section we analyze determinates of participation in the rental market and factors affecting the choice rental of contract duration. Current literature estimates land renting behaviour using two or more stage approaches.

● **The first stage** focus on the decision making to rent out/in land, in order to examine factors that motivate the participation in rental market (Holden and Ghebru 2005; Huy et al. 2013; Macours 2002; Akter 2006; Tu et al. 2006, Feng and Heerink 2008; Deininger and Jin 2002).

● **In the second stage**, given the decision to rent out/in land, the landowner/tenant makes decision on the tenant/landowner type (Macours et al. 2004; Ma; Wang; Deininger and Jin 2002) or contract type (Macours 2003; Bezabih and Holden 2006).

Determinants of land renting

Determinants of land renting

■ We apply two stage probit model first to estimate land renting behaviour and second to estimate contract duration choice.

■ The first stage is expressed by the **rental market participation model**, where dependent variable is equal to one if a given plot is rented out and zero otherwise. The independent variables include *plot's characteristics* (P) (total size of the plot), *landowner's characteristics* (L) (gender, age, female to male ratio, number of family members, number of cattle, total area of owned land by the household) and *village characteristics* (V) (village dummies):

$$R = \alpha_0 + \alpha_1 P + \alpha_2 L + \alpha_3 V + \varepsilon \quad (1)$$

$$C = \beta_0 + \beta_1 L + \beta_2 T + \beta_3 P + v \quad (2)$$

Determinants of land renting

Determinants of land renting

Definitions of variables

First stage		Second stage	
Var.	Definition	Var.	Definition
R	Dummy variable for land renting; 1 if plot rented in/out; 0 otherwise	C	Dummy for contract type: 1 if long term contract; 1 if short term contract
P1	Total area of the plot	P1	Total area of the plot
L1	Dummy for gender: 1 for male landowner	L1	Dummy for gender: 1 for male landowner
L2	Age of household head	L2	Age of household head
L3	Square of the age of household head	L3	Number of family members
L4	Female-to-male ratio	L4	Number of cattle
L5	Number of family members	L5	Total area of owned land by the household
L6	Number of cattle	T1	Dummy for kinship relationship: 1 for kinship
L7	Total area of owned land by the household	T2	Age of the tenant
L8	Square of owned land by the household	T3	Number of cattle of the tenant
V1-V3	Village dummies: V1=1 for Dushk, V2=1 for Çidhen, V3=1 for Pulahe	T4	Total area of owned land by the tenant
		T5	Number of family members of the tenant

Determinants of land renting

Determinants of land renting

Two stage probit estimation results

Rental market participation (first stage)		Contract choice decision (second stage)	
	Estimated coefficients		Estimated coefficients
area	1.28E-05	area	-2.74E-05
gender (male)	0.441**	gender	0.7
age	-0.0814***	age	0.196***
age2	0.000674***	no_family_members	-0.505**
female_to_male_ratio	0.146	cattle	-0.709***
no_family_members	0.0927**	owned_land	9.02e-05**
cattle	-0.450***	kinship	4.036***
owned_land	1.23E-05	age_tenant	0.115**
owned_land2	0	cattle_tenant	-0.174
dushk	-0.221	owned_land_tenant	-0.000156***
Çidhen	0.233	no_family_members_tenant	-0.343
pulahe	1.553***	Constant	-15.43***
Constant	-0.232		
No. of observations	2,689	Number of observations	98

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Conclusion

■ In this paper we analyse land market development in Albania more than two decades after the completion of the land privatization in the early 1990s. Albania represents particularly interesting case for studying land markets. Agriculture still represents an important share in the overall economy as well as the transition from the planned economy to market economy in early 1990s provides a natural experiment in identifying structural changes that took place in land markets. We derive our analyses from survey conducted in four Albanian villages during May 2013.

■ The results of the paper indicate that land market is rigid with almost no structural change took place over the last two decades of transition in the surveyed villages. Sale markets are almost non-existent; only less than 3% of the total agricultural land was exchanged between households since the end of the privatization process. This could be attributed to property rights insecurity and prevalence of subsistence farming in rural Albania.

■ Rental markets are more sizable representing 15% in total area of the surveyed villages. However, land supply on rental market comes mainly from absentee landowners. Due to property right insecurity and to reduce monitoring costs the vast majority of rental arrangements are between family relatives. The rental arrangements relay on trust as most contracts are oral and informal. Tenants have been using the same plot long period, sometimes even since the beginning of transition.

THANK YOU FOR YOUR ATTENTION!